





# CoreEconomics

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***To Josephine and Sheila***

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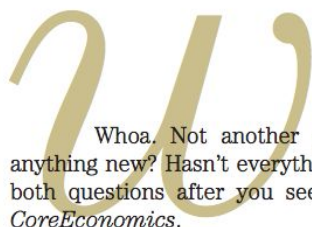
## ABOUT THE AUTHOR



**Gerald W. Stone** is Emeritus Professor of Economics at Metropolitan State College of Denver. He has taught principles of economics to over 10,000 students throughout his career, and he has also taught courses in labor economics and law and economics. He has authored or coauthored over a half dozen books and numerous articles that have been published in economic journals such as the *Southern Economic Journal* and the *Journal of Economics and Sociology*. He earned his Bachelor's and Master's degrees in economics at Arizona State University, his Ph.D. in economics at Rice University, and a J.D. in law at the University of Denver.

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## PREFACE



Whoa. Not another principles of economics book. How could it offer anything new? Hasn't everything been done by now? I hope you will answer *no* to both questions after you see what is available to you and your students with *CoreEconomics*.

I sought to write a textbook that is interesting and usable for instructors. I also wanted to give students extra help to learn the material. My experience with my students at Metropolitan State College of Denver, who come from wide backgrounds in an urban setting, led me to produce a unique student supplement (*CourseTutor*) that is integrated with the text. Together, the textbook and unique supplement provide instructors and students something that no one else provides.

### What Does *Core* Mean?

My students complained continually that their textbooks were too expensive, and too long, and too encyclopedic, and as a result, one-third or more of the material in the text wasn't covered in the course. They often resented paying for this unused extra material.

*CoreEconomics* is not an encyclopedic offering. It does not cover every topic, but is partly based on a survey of economics professors to determine what they actually covered in their courses. Two important points emerged from this survey:

- **One chapter per week.** Instructors typically cover one chapter per week, or 15 chapters in a 15-week semester.
- **The majority of instructors teach roughly the same two-thirds of a standard economics textbook.** The overwhelming majority of instructors covers the same chapters in their course and then spend minimal time covering additional chapters. Over 90% of instructors cover roughly 15 chapters in their microeconomics or macroeconomics text, which typically includes 19–22 chapters.

In this sense, *core* does not mean brief or abridged. Rather, it means that the textbook contains the chapters that most instructors need, a very few additional chapters on special-interest topics.

### The Core Text

The organization is traditional and the coverage concise. Concepts are thoroughly explained and illustrated with contemporary examples and issues integrated seam-

QY: insert "the" before the word chapter?

lessly into the text with the aim of enhancing the reading–learning experience. A conscious effort has been made to resist putting too much information – more than students need and unnecessary detail – to keep students honed in on the most important concepts. The goal has been to give students what is needed and no more.

The text incorporates the historical development of economics so students see how ideas and theories evolve over time. A dozen historical figures are highlighted in biographies and, in addition, the biographies of particular Nobel Prize winners are included when their contributions are of particular importance to the material covered in chapter.

The text is loaded with applications that I think instructors and students will find interesting. These applications are not boxed off – they appear seamlessly throughout. Here are a few of them:

- In Chapter 5, we look at Hubbert's Peak, the 1950s prediction by Marion King Hubbert that U.S. oil production would peak in the 1970s. This in fact happened. Hubbert's model predicts that *world* oil production will peak within the next decade. If true, what will happen? How will markets adjust?
- In Chapter 6, the curious case of tipping is discussed. Because we tip after we are served a meal in a restaurant, our tip cannot influence behavior, unless we are repeat customers. Why tip at all, or why tip anything other than the minimum amount? How does tipping fit with our model of rational consumer behavior?
- In the appendix to Chapter 6, for those instructors who cover indifference curve analysis, this analysis is applied to policies dealing with terrorism. How can we categorize the various policies, and which ones are likely to be most effective?
- In Chapter 13, we consider the economics of global warming. We look at the evidence to date and then consider various predictions and the assumptions that sit behind them. The goal is to provide an economic framework for thinking about global warming.
- In Chapter 16, we look at the different unemployment and job creation numbers given by the Establishment (payroll) Survey as opposed to the Household Survey. We show how a simple measurement issue has important policy ramifications.
- In Chapter 17, we look at innovation waves. The pace of technological change is speeding up. It took 50 years to go from steam power to electricity, and in 40 years digital devices, software, and the Internet have replaced electrical equipment. Today computers are speeding up developments in biotechnology on a decade timescale. What does this imply for economic growth?
- In Chapter 23, we look at the fiscal sustainability of the federal budget and inter-generational burdens. Are we headed for a fiscal train wreck? If so, what needs to be done?

I have sought to make the end of chapter questions interesting by basing many of them on recent issues, quotes, and articles, extending the analysis in unique ways. These questions should make good lecture starters to get students involved in the chapter material. Sample answers are included in the Instructor's Manual.

The text is written with beginning students in mind. I set out to provide a text that reduced student anxiety and made the material more accessible and interesting.

## What Is *CourseTutor*?

For many years I taught two classes that met only on Saturday for three hours each. It soon became clear that students needed more feedback than what a once-a-week meeting could provide. I gave short quizzes on Saturday, analyzed each student's responses on Sunday, and sent each student a personalized set of study sugges-

tions and additional exercises on Monday. *CourseTutor* evolved from this approach and is intended to help students who need something more than just a traditional study guide.

*CourseTutor* is divided into two basic sections: tutorial and study guide. The tutorial section guides students through each section of each chapter, while the study guide provides traditional study guide material. Both sections are designed for interactivity.

Each section in *CourseTutor* begins with frequently ask questions (FAQs) with extensive answers. This helps students to see what is really important in this section. This is followed by a quick quiz (five to ten questions). Their results on the quiz are diagnosed and suggestions for additional study, if needed, are provided. These suggestions are backed up with solved problems, exercises, and an explanation of core graphs, equations, and formulas. Those students who traditionally become frustrated or have trouble with economics will find *CourseTutor* helpful and hopefully improve their attitude and interest in economics.

Following the tutorial section is a brief section called "Hints, Tips, and Reminders" that I have found helpful for students over my career. Also included for each chapter is a single-sheet exam preparation guide (ExamPrep) where the important concepts are boiled down to one sheet that students must complete. The ExamPrep sheets typically have enough space for students to add concise summaries of class notes. Also included for each chapter is a single-sheet homework assignment that you can require students to hand in, or students can complete online at the Worth online learning center and have their grades e-mailed directly to you.

Students learn by many different methods. *CourseTutor* addresses this by providing a buffet of learning choices. Students select those methods that best help them learn. Students having problems with specific material can turn to that particular section in *CourseTutor* for help. But, it is important to note that students are not expected to work through all of the material unless they absolutely need this level of additional help.

The remainder of each chapter in *CourseTutor* is standard study guide material including chapterwide matching, true-false, fill-in, multiple choice, essay questions, and problems for students to practice.

*CourseTutor* should save you time if students work through the tutorial before they come to see you; they should have fewer unfocused questions when they show up at your office for help. I believe you will find *CourseTutor* a worthwhile addition for your students.

Together, I think *CoreEconomics* and *CourseTutor* provide something for you and your students that no one else in the market provides.

AU: quick check?

## Outline of the Book

*CoreEconomics* follows a traditional organizational sequence with microeconomics covered before macroeconomics. This serves students better because they are used to dealing in markets with firms, and microeconomic issues are part of their everyday lives. Macroeconomics, while fascinating, deals in billions and trillions of dollars and is more abstract than microeconomics. Within these two divisions, *CoreEconomics* follows, as you will see, a very traditional outline for chapters.

## Microeconomics

Students are introduced to economics in the first five chapters that focus on the nature of economics, trade, markets, supply, demand, and elasticity. Chapters 1 and

2 provide a foundation for the study of economics along with a brief look at production and trade. Chapter 3 lays out supply, demand, and market equilibrium and details the efficiency of markets. Chapter 4 provides a balance to Chapter 3 by introducing the requirements for efficient markets, what happens when markets fail and how they tend to fail, and what government can do, in addition to a discussion of the impact of price ceilings and floors. These two chapters give students a good foundation in the benefits of markets along with some of the caveats. Chapter 5 introduces elasticity with its ramifications for total revenue and tax policy.

Chapters 6 and 7 provide students with an understanding of what is behind supply and demand curves. Chapter 6 on consumer decision making covers marginal utility analysis with an indifference curve appendix. Chapter 7 explores production and cost analysis for both the short run and long run.

The next three chapters (8–10) take students through market structure analysis plus a discussion of antitrust issues and an expanded coverage of game theory. The ability to discern behavior from market structure data is a fundamental aspect of microeconomics and these three chapters cover that material in detail.

Chapters 11 and 12 discuss the theory and issues surrounding input markets, especially labor markets. Chapter 11 uses market structure analysis to examine input markets and chapter 12 goes into more detail on issues of human capital, economic discrimination, labor unions, and collective bargaining.

Market failures, public goods, and environmental economics are the issues discussed in Chapter 13, while poverty and income distribution are covered in Chapter 14. These two chapters provide the economic background for several of the most widely discussed topics in microeconomics today including poverty, growing income inequality, and global climate change.

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## Macroeconomics

Macroeconomic coverage begins with Chapter 15, which introduces students to macroeconomic issues and GDP accounting. Chapter 16 follows with its attention on measuring inflation and unemployment. These two chapters give students the background needed for our discussion of macroeconomic theory in the next three chapters.

Chapter 17, 18, and 19 contain the core of macroeconomic theory. Chapter 17 introduces students to a brief overview of classical theory before the 1930s and an expanded discussion of the importance and sources of economic growth. Keynesian macroeconomics with its focus on aggregate expenditures is covered in Chapter 18. The last chapter in this sequence, Chapter 19, introduces students to the modern macroeconomics of aggregate supply and demand. One important note: These three chapters can be read or studied in any sequence adding flexibility for instructors who prefer to include or exclude one chapter or another.

Fiscal and monetary policy is the focus of Chapters 20 to 22. Discretionary fiscal policy, automatic stabilizers, and how fiscal policy affects aggregate supply constitute most of Chapter 20. Money, its nature, measurement, and creation by banks, and the institutional aspects of the Federal Reserve are the focus of Chapter 21. Monetary theory and policy are covered in Chapter 22, with an emphasis on how money and monetary policy affect interest rates, investment, and the economy.

Chapters 23 and 24 cover federal deficits and the public debt and macroeconomic challenges facing policymakers. Chapter 23 discusses deficits and the public debt, how they are financed, their burden on future generations, and their implications for macroeconomic policy in an open economy. Philips curves, inflationary expectations, and the implications of rational expectations on macroeconomic policy are the main issues presented in Chapter 24. In addition, an extended discus-

sion of the problems associated with the “jobless recovery” aspects of the last two recessions is included.

The final two chapters of the book are devoted to the international economy. Chapter 25 covers the classical issues of international trade including the gains from trade (the Ricardian perspective), the terms of trade, along with a discussion of the impacts of tariffs and quotas, and an expanded discussion and evaluation of the arguments against trade. The last chapter (Chapter 26) examines the traditional topics of international finance (the balance of payments and exchange rates) along with an examination of fixed and flexible exchange rate systems. The final section of this chapter looks at the effect of these exchange rate systems on monetary and fiscal policy in an open economy.

## Supplements

A useful and seamless supplements package has been developed to accompany this textbook. The package was crafted to help instructors teach their principles course, with both the experienced and novice instructors in mind. Along with the accompanying *CourseTutor* the additional ancillaries have been designed to help students work through the Core topics and to more readily grasp these key concepts. The entire package has been coordinated to guarantee uniformity and has been designed to work with the content, examples, and style of the Core text and *CourseTutor*.

## For Instructors

**Teaching Manual with Suggested Answers to Problems:** The Teaching Manual prepared by Dr. Mary H. Lesser (Iona College) is an ideal resource for instructors trying to enliven their classroom lectures while teaching the Core concepts. The Teaching Manual focuses on highlighting varied ways to bring real-world examples into the classroom by expanding on examples and real-world problem material within the text. Portions of the Teaching Manual have been designed for use as student handouts.

Every chapter of the Teaching Manual includes:

- *Chapter Overview:* A brief summary of the main topics covered in each chapter is provided.
- *Ideas for Capturing Your Classroom Audience:* Written with both the experienced and novice instructor in mind, this section provides ideas for introducing the chapter material. The suggestions provided can be used in a number of ways; they can be in-class demonstrations or enrichment assignments, and can be used in on-site, distance-learning, or hybrid course formats.
- *Chapter Checkpoints:* Each chapter of the text has Chapter Checkpoint sections that provide both bulleted review points and questions designed to assess whether students have mastered the main points of the section material. The Teaching Manual provides the instructor with suggested answers to those questions, notations about points to emphasize, and suggestions about reinforcing the assessment of student learning.
- *Extended Examples in the Chapter:* The Teaching Manual reproduces the extended examples used in each chapter and provides a discussion of these examples. As with the Chapter Checkpoint material, teachers will find that these sections delineate points to emphasize and provide additional resources for spurring student interest.
- *Examples Used in the End-of-Chapter Questions:* A number of the End-of-Chapter questions refer to specific articles in major newspapers or specific real-world examples. The Teaching Manual provides the instructor with a succinct

overview of those Questions and cites additional resources that can be used to develop more in-depth analysis of the topics covered. Note that this is in addition to the sample answers that are also provided.

- *For Further Analysis:* Each Teaching Manual chapter contains an additional extended example that can be used in a variety of ways. Formatted as a one-page handout, it can be duplicated and distributed in class (or posted online), and is designed for use either as an in-class group exercise or as an individual assignment in both the on-site and online class format. Asking students to document research allows the instructor to use the example as a case study or group project as well. Learning objectives are specified and a one-page answer key is also available for reference or distribution.
- *Web-Based Exercise:* Each Teaching Manual chapter includes a Web-Based Exercise that requires students to obtain information from a web site and use it to answer a set of questions. This Web-Based Exercise can be used in a variety of ways as in-class group exercises or as individual assignments. Learning objectives are specified and suggested answers to questions are provided that can be used for reference or distribution.
- *Tips from a Colleague:* Each chapter of the Teaching Manual concludes with a “tips” section that shares ideas about classroom presentation, use of other resources, and insights about topics that students typically find difficult to master.

**Test Bank:** *Coordinator and Contributor:* Richard Croxdale (Austin Community College). *Test Bank Contributors:* Emil Berendt (Siena Heights University), Dennis Debrecht (Carroll College), Dr. Elizabeth J. Wark (Springfield College). The Test Bank contains nearly 4,000 carefully constructed questions to help you assess your students’ comprehension, interpretation, analysis, and synthesis skills. Questions have been checked for continuity with the text content and reviewed extensively for accuracy.

The Test Bank features include the following:

- To aid instructors in building tests, each question has been categorized according to their general *degree of difficulty*. The three levels are: easy, moderate, or difficult. *Easy* questions require students to recognize concepts and definitions. These are questions that can be answered by direct reference to the textbook. *Moderate* questions require some analysis on the student’s part. These questions may require a student to distinguish between two or more related concepts, to apply a concept to a particular situation, or to use an economic model to determine an answer. *Difficult* questions will usually require more detailed analysis by the students.
- To further aid instructors in building tests, each question is referenced by the page number and specific topic heading in the textbook. Questions are presented in the order in which concepts are presented in the text.
- Questions have been designed to correlate with the questions and problems within the text and *CourseTutor*. A beginning set of Objectives Questions are available in each chapter. These questions focus directly on the key concepts from the text that students should grasp after reading the chapter. These questions can be used easily for brief in-class quizzes.
- The test bank includes questions with tables that students must analyze to solve for numerical answers. It contains questions based on the graphs that appear in the book. These questions ask students to use the graphical models developed in the textbook and to interpret the information presented in the graph. Selected questions are paired with scenarios to reinforce comprehension.

**Computerized Test Bank:** Diploma was the first software for PCs that integrated a test-generation program with grade book software and an online testing system.



Diploma is now in its fifth generation. The printed Test Banks for *CoreEconomics* are available in CD-ROM format, powered by Brownstone, for both Windows and Macintosh users.

With Diploma, you can easily create and print tests and write and edit questions. You can add an unlimited number of questions, scramble questions, and include figures. Tests can be printed in a wide range of formats. The software's unique synthesis of flexible word processing and database features creates a program that is extremely intuitive and capable.

**Instructor's Resource CD-ROM:** Using the Instructor's Resource CD-ROM, instructors can easily build classroom presentations or enhance online courses. This CD-ROM contains all text figures (in JPEG and GIF formats), PowerPoint Lecture slides, and detailed solutions to all End-of-the-Chapter Questions. You can choose from the various resources, edit, and save for use in your classroom.

**PowerPoint Lecture Presentation:** PowerPoint slides provide graphs from the textbook, data tables, and bulleted lists of key concepts suitable for lecture presentation. Key figures from the text are replicated and animated to demonstrate how they build. The Checkpoints from the text have been included to facilitate a quick review of key concepts. These slides may be customized by instructors to suit individual needs. These files may be accessed on the instructor's side of the web site or on the Instructor's Resource CD-ROM.

Art to come??

## For Instructors and Students

**Companion Web Site:** [www.worthpublishers.com/stone](http://www.worthpublishers.com/stone): The Companion Web Site is a virtual study guide for students and an excellent resource for instructors. The tools on the site include:

### Student Resources

- **Self-Test Quizzes:** This quizzing engine provides a set of quiz questions for each chapter with appropriate feedback and page references to the textbook. All student answers are saved in an online database that can be accessed by instructors.
- **Key Term Flashcards:** Students can test themselves on the key terms with these popup electronic flashcards.

### Instructor Resources

- **Quiz Gradebook:** The site gives you the ability to track students' work by accessing an online gradebook. Instructors have the option to have student results emailed directly to them.
- **PowerPoint Lecture Presentations:** These PowerPoint slides are designed to assist instructors with lecture preparation and presentation by providing bulleted lecture outlines suitable for large lecture presentation. Instructors can customize these slides to suit their individual needs.
- **Textbook Illustrations:** A complete set of figures and tables from the textbook in JPEG and PowerPoint format is available.
- **End-of-Chapter Problems:** The text's End-of-Chapter Problems have been posted here in an electronic format for instructors to incorporate into assignments or in-class quizzes.

**CourseTutor Online Study Center:** This dynamic site enables students to gauge their comprehension of concepts and provides a variety of resources to help boost their performance within the course. This Online Study Center provides an alter-

native to the pen and paper version of *CourseTutor*. Instead, students can work through *CourseTutor* content online. In this online format, students can follow their own pace and complete any or all steps of *CourseTutor*. All of this is possible with or without instructor involvement.

The Online Study Center contains an electronic version of the *CourseTutor* authored by Gerald W. Stone. Content is organized and accessible through the major headings within *CourseTutor*. The Quick Checks and Homework are available in an online quizzing engine for automatic grading. Answers to the Homework and End-of-Chapter Questions will be posted on the instructor side. Students will find the additional Interactive Resources where appropriate within the body of *CourseTutor*.

The interactive resources may also be accessed under the resources tab within the Online Study Center.

*CourseTutor* Online Study Center includes the following Interactive Resources:

- *Solved Problems*: Problems designed for this online environment using a graphing and assessment engine. Students may be asked to draw, interpret, or interact with a graph to provide an answer. Students will receive detailed feedback and guidance on where to go for further review.
- *Core Graphs*: Animated versions of these key graphs.
- *Audio Summaries*

#### **STUDENTS: What can they do with the Online Study Center?**

- Test mastery of important concepts from the text.
- Improve understanding of difficult topics by working with interactive tutorials and flashcards, along with an electronic version of your *CourseTutor*.
- Take notes on any of the resources and add them to a collection of favorites.
- Browse by chapter or search by topic if they need quick information about a specific concept.

#### **INSTRUCTORS: What can you do with the Online Study Center?**

- Interact with your students as little or as much as you like! You can assign the exercises as out-of-class activities, or encourage your students to work independently.
- If you so desire, monitor your students' progress within the Online Study Center using a sophisticated online gradebook.
- Export grades to your current Course Management System.
- Create customized web pages for your students.

### Additional Online Offerings



**Aplia—Integrated Textbook Solution:** Aplia, founded by Paul Romer (Stanford University), is the first web-based company to integrate pedagogical features from a textbook with interactive media. Specifically designed for use with the Stone text, textbook resources have been combined with Aplia's interactive media to save time for professors and encourage students to exert more effort in their learning.

The integrated online version of the Aplia media and the Stone text will include:

- extra problem sets suitable for homework and keyed to specific topics from each chapter
- regularly updated news analyses
- real-time online simulations of market interactions

- interactive tutorials to assist with math
- graphs and statistics
- instant online reports that allow instructors to target student trouble areas more efficiently

With Aplia, you retain complete control and flexibility for your course. You choose the topics you want students to cover, and you decide how to organize it. You decide whether online activities are practice (ungraded or graded). You can even edit the Aplia content – making cuts or additions as you see fit for your course.

For a preview of Aplia materials and to learn more, visit <http://www.aplia.com>.



**The Stone WebCT & Blackboard EPacks** enable you to create a thorough, interactive, and pedagogically sound online course or course web site. The EPacks provides you with cutting-edge online materials that facilitate critical thinking and learning, including Test Bank content, preprogrammed quizzes, links, activities, animated graphs, and an array of other materials. Best of all, this material is preprogrammed and fully functional in the WebCT & Blackboard environment. Prebuilt materials eliminate hours of course-preparation work and offer significant support as you develop your online course. The result: an interactive, comprehensive online course that allows for effortless implementation, management, and use. The files can be easily downloaded from our Course Management System site directly onto your department server.

## Package Options



**i-clicker** is a new 2-way radio-frequency classroom response solution developed by educators for educators. University of Illinois physicists Tim Stelzer, Gary Gladding, Mats Selen, and Benny Brown created the i-clicker system after using competing classroom response solutions and discovering they were neither classroom appropriate nor student friendly. Each step of i-clicker's development has been informed by teaching and learning. i-clicker is superior to other systems from both a pedagogical and technical standpoint. To learn more about packaging i-clicker with this textbook, please contact your local sales rep or visit [www.iclicker.com](http://www.iclicker.com).

**Wall Street Journal Edition:** For adopters of the Stone text, Worth Publishers and the *Wall Street Journal* are offering a 10-week subscription to students at a tremendous savings. Professors also receive their own free *Wall Street Journal* subscription plus additional instructor supplements created exclusively by the *Wall Street Journal*. Please contact your local sales rep for more information or go to the *Wall Street Journal* online at [www.wsj.com](http://www.wsj.com).

**Financial Times Edition:** For adopters of the Stone text, Worth Publishers and the *Financial Times* are offering a 15-week subscription to students at a tremendous savings. Professors also receive their own free *Financial Times* subscription for one year. Students and professors may access research and archived information at [www.ft.com](http://www.ft.com).

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